Industrialization and Economic Policy in Algeria: a Synthesis over half a Century

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Abstract
Since independence, Algeria has spent nearly half of the last fifty years to build a model of socialist development and the other half tried to escape, hampered by a system of conservation of power, unable to spread the wealth and thus achieve a legitimate economic growth. The objective of this paper is to identify the factors that led Algeria to an economic paradox. Based on a synthesis of several studies on the economic and political situation in the country since its independence, either directly (specific studies on Algeria) or indirectly (studies on the development strategies of a patrimonial State) we present the model of development, the shifts in economic policy, which led to the current situation.

Keywords
Algeria, dutch disease, socialist development.

Introduction
Algeria is at the heart of the debate on the success or failure of development strategies that have been pursued since the independence of former European colonies. The use of non-renewable natural resources as a vector for development begs the question of the sustainability of the choices made. The challenges Algeria has to deal with are rooted in the construction of the nation, the way the ruling elite is selected, and how the revenues from non-renewable energy sources are used (Lowi, 2004). As the economy is financed by oil revenues, observers have called it a ‘rentier’ state (Beblawi, 1990), or a patrimonial state (Lowi, 2004), with general consensus over the term “authoritarian state” (Addi, 2012), underscoring the extent of corruption and patronage that affects the whole political-administrative mechanism. Field studies (Cheriet, 2013) have shown the massive scale of corruption and fraud (both commercial and fiscal), as well as the institutionalisation of illegal behaviour. “These fraudulent practices appear to be the way firms have adapted to a complex administrative context, an unstable economic environment and an afflux of public moneys earmarked to commission major projects” (Cheriet, 2013).
Another debateable issue is the way the heads of state are chosen: thus, Chadli Boudjedid was given the post of president of the Republic because he was “the longest-serving and most senior officer,” while Abdelaziz Bouteflika was pushed to centre stage in 2014 as he was the least likely to upset anyone.

Keeping the FLN\(^1\) at the head of the country for over 50 years raises questions as to the nature of the political power (in one of his books, Ferhat Abbas speaks about “the confiscated independence”) in a country which is neither a democracy, nor a true dictatorship (as there is a relatively free press and elections based on a multiparty system façade). The economic failure and political stalemate suggest that the FLN destroyed its own dreams.

In the second section we describe the development model in place since independence. In the third part, we explain how this model has been reshaped. Section 4 presents the consequences of the situation on the population. Section 5 argues that Algeria is now at a turning point in its history and that it faces a large number of challenges.

II. - DEVELOPMENT BASED ON SELF-RELIANCE

Following independence in 1962, Algerian leaders had to learn from scratch how to govern and fill the gap left by the French (Perroux, 1963). Under the leadership of Colonel Houari Boumediene, Algeria introduced an introverted development strategy which prioritised the upstream sector based on the soviet socialist model, and schematically underpinned by the following elements:

- a single political party (the Front de Libération National, FLN);
- difficulty in correcting any errors (strong ideology and weak opposition) and lack of appraisal of public policies;
- protectionism, state monopoly over international trade, absence of export support mechanisms (desire for autarchy);
- centralised planning (the first quadrennial plan was launched in 1970) and centrally administered economy;
- priority given to heavy industry;
- agricultural reform (collective farming);
- transfer of agricultural resources to industry.

In the name of an economic independence supposed to consolidate its political independence, Algeria did not want to use its comparative advantages to take part in the international division of labour, nor did it want to specialise in tourism, and it eschewed industrial task-sharing, options considered demeaning for a socialist country rich in raw materials. The country aimed to create an integral production mechanism by developing the ‘industrialising industries’ model conceptualised by Destanne de Bernis (1963 and 1966) and financed by its own resources. This strategy aimed to create an integration model involving the whole economy (metal, mechanical and electrical industries) in order to meet domestic demand (Aliouche, 2014).

However, this autarchic model proved ill-conceived. The government’s investment in heavy industries (steel petrochemicals) was far too ambitious with respect to the uptake capacity of the domestic market. Given the limited size of the population and the taxes levied on agents’ revenue to cover the costs, heavy industry had limited internal opportunities (small domestic market). As in the soviet model, agriculture, consumer goods and housing were sacrificed. Some authors, such as Andreff and Hayad (1978), highlighted the lack of coherence in

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\(^1\) The National Liberation Front (FLN) is an Algerian political party. It was created in November 1954 in Algeria’s fight for independence from France.
the choices made (mismatch between the priority industries adopted in the Algerian plans and the hierarchy of industrialising industries).

The resources drawn from the sale of oil and gas were insufficient to create the conditions for long-term economic growth. Extracting oil from the country’s subsoil simply made the country poorer as it drew from its non-renewable resources. In addition, unlike other oil-exporting countries (such as Qatar or the United Emirates), Algeria did not build up a sovereign fund to prepare for the post-oil era. There was a failure to back up the management of oil sale revenues with a long-term strategic vision.

In economics theory, exports of raw materials have often been considered as a factor of dependence, and cannot be considered a promising avenue for development (Nurkse, 1953). One of the most surprising aspects of economic growth in today’s world is that countries with the largest supplies of natural resources have a lower growth rate than the others (Sachs & Warner, 1995). ‘Rentier’ states tend to develop policies based on state-allocated income rather than on the creation of new production-driven wealth (Mahdavy, 1970; Luciani, 1987).

Moreover, Algeria was subjected to what economists call the Dutch Disease (Corden & Neary, 1982): i.e., blockage of the industrialisation process due to hikes in the price of raw materials. Growth in profitability in the natural resource sector affects an economy in three ways: 1/ a shift in the labour force towards the expanding sector and increased salaries in this sector; 2/ growth in revenue which leads to general inflation; 3/ a rise in the exchange rate, which handicaps the domestic industry subjected to international competition.

From a study on the MENA countries (Middle East and North Africa), Apergis et al. (2014) identified a negative link between oil revenue and added value from agriculture, a sector which struggled to return to equilibrium with each hike in the price of oil. The authors accounted for the phenomenon by the reallocation of resources into the oil and gas sector.

Algeria may be considered as a ‘quasi-rentier’ country since its income is not based uniquely on oil and gas extraction revenues (high level of money transfer from expats) and because it does not systematically have a surplus balance of trade. Moreover, the consensus obtained for the domestic plan did not stop the government from developing a propaganda system, mobilising the masses and repression (Messiha et al., 2012).

### III. – CHANGING ECONOMIC PRIORITIES ■

The oil counter-shock of 1985/1986 had a considerable impact on the country by significantly reducing its export revenue. The sharp drop in income cast doubt on the government’s ability to support employment and consumption through subsidies. The sudden fall in oil prices called into question the industrialisation model financed by revenue from the oil and gas industry, exposing the country’s extreme vulnerability.

The first reforms and restructuration measures applied to national firms (Sonatrach, Sonelgaz, Sonacome, etc.) date from this period. They were the precursors of a whole series of changes designed to revise the role of the public sector in the economy. After nationalising the oil industry, Algeria was forced to backtrack at the beginning of the 1990s to attract foreign capital. Partial privatisation was introduced and the socialist areas of farming and state-owned industry were given greater autonomy.

The review of the constitution in 1989 was a real turning point. It got rid of all references to socialism and acknowledged the interest of private entrepreneurship and its complementarity with the public sector. Officially, the country began a vast post-socialist reform programme.

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2 SONATRACH (national company for the processing and sale of oil products) is a state-owned Algerian company and a major player in the oil industry.
3 SONELGAZ, the state-owned electricity and gas company, is responsible for the production, transport and distribution of gas and electricity.
4 The industrial vehicles firm, also called Société nationale des véhicules industriels (SNVI) or the Société nationale de construction mécanique (SONACOME), is a state-owned Algerian company specialising in the manufacture of lorries.
Following the riots in October 1988, and the military coup which interrupted the electoral process at the beginning of 1992 (after the Front Islamique de Salut had won the first round of elections), Algeria erupted into civil war (the ‘black decade’: 1992-1999) between the military power and Islamic movements, leaving almost a hundred thousand people dead. Destabilised by terrorist attacks and squeezed hard by the fall in oil prices, Algeria suspended its debt service payment in 1994. Placed under the tutelage of the IMF (with the signing of a structural adjustment plan), Algeria was forced to adopt a free market economy policy.

Despite repeated promises to liberalise the energy market industry, the status quo of the patronage between Sonatrach and the government continued. The degree of liberalisation and control varied, depending on the price of oil and internal pressure (Entelis, 1999).

In fact, Sonatrach’s strategy and global performance in Algeria’s oil and gas sector remained pretty much the same despite the globalisation of the oil and gas industry. Algeria adopted a series of reforms that aimed to enhance the country’s economic transparency and efficiency. These reforms encouraged more competition and helped to improve the performance of the Algerian energy industry, but the government’s determination to keep its grip on the sector explains why moves to liberalise the industry have continually been abandoned each time the authorities believe that their power is being challenged.

The way a country opens up its market to the outside world depends on its sectoral organisation (types of comparative advantage) and the cohesion of its policy-makers (Hall, 1997; Abbas, 2012). This type of change could therefore only take place once protectionism – which oversaw the first decades of independence – lost its legitimacy. Given the concentration of exports in oil and gas, the acceptable level of imports consequently needs to be defined. As Abbas (2012) pointed out: “In the case of Algeria, where energy is the only export sector, control over imports, but, above all, over the actors and the import networks, is a key factor in managing global integration.”

Today, almost 50 years after independence, the Algerian economy is a service-based ‘rentier’ economy. According to the national office of statistics, 83% of the economic fabric is based on trade and small-scale services. Over 90% of the industrial fabric is made up of family-based SMI/SME structures. The country owns the third largest oil reserves in Africa (12.2 billion barrels) and a third of the continent’s gas resources (4500 billion cubic metres) but still does not have the real aggregates needed to build a modern economy outside of the oil and gas sector (Aliouche, 2014). In these conditions, the Algerian population cannot take advantage of its potential wealth.

IV. - THE ALGERIAN POPULATION

Since the beginning of the 1960s, the Algerian population has tripled to over 38 million inhabitants. This growth masks a substantial drop in the fertility rate (2.1 children per family in 2012 against 7.4 in 1970), partly due to women marrying later and girls enjoying a higher level of education. Very few women go out to work, however (20% of a 12 million-strong labour force).

For a while, the ‘rentier’ economy neutralised the drivers of demographic transition (Fargues, 2000). The oil counter-shock of 1985/86, and the massive drop in oil revenues led to shrinking incomes and a general fall in fertility throughout the Arab world. This phenomenon also affected other Muslim countries which were even more closed, such as Iran (Ladier-Fouladi, 2005). In fact, fertility halved in one generation, a situation that reflected a “complete demographic reversal” (Fargues, 2000). The demographic transition began late for the Maghreb/Machrek countries compared to Latin America or Asia, but once it took hold, the mutation was rapid. The fall in fertility is a sign of deep-seated changes to societies on the south of the Mediterranean (challenging the patriarchy and a shift in the status of women).

In the last few decades, despite a redistribution of part of the revenue from oil, there is little sign of a rise in living standards of people either in towns or in the countryside. However, despite its relatively modest rate of GDP, Algeria has steadily improved its position in terms of human development, despite the economic and political turmoil.
Today, under 25 year olds account for the bulk of the population in the countries south of the Mediterranean, or what we could call the “post-Islamic” generations (Roy, 2007) who are “detached from the nationalist and anticolonial memories” (Stora, 2011) and have a strong leaning towards the consumer society.

In the 1990s, Algeria was confronted with an acute identity crisis in religious, economic, social and cultural terms. This crisis had an extremely negative impact on its global economy, which still reverberates today at the beginning of the 21st century. The damage includes the destruction of many of its infrastructures. However, infrastructures were not the only aspects to suffer. In addition to the armed conflict, the economic crisis, high unemployment, and poor working conditions and social services, there was an exodus of top and middle managers which resulted in significant demand for foreign skills. Moreover, the gap remains wide between educational supply and demand. In most instances, the programmes available in higher education do not match the requirements of business, skills are rare and firms find it extremely difficult to recruit the right young people. The higher education sector and course organisation is managed in a bureaucratic manner which is ill adapted to the needs of business. Higher education is far removed from its main consumers, in other words, business leaders, unions, and employer organisations. This leads to dysfunctional decision-making and responses from the education system, which is poorly adapted to the development requirements of business organisations or those of the country.

■ V. - MANY UNCERTAINTIES ■

The country’s financial situation is healthy: there is practically no external debt (it was reimbursed earlier than planned) and the country has large foreign exchange reserves (200 billion dollars). The country experienced an upturn in 2002, due to the rise in oil and gas prices as Algeria is a major exporter of both (thanks to its two offshore pipelines which deliver gas to Europe). The production structure was distorted in favour of energy and at the expense of the manufacturing industry which has continually lost ground despite the massive government investment in industry to provide Algeria with “industrialising industries.”

Some large, private local groups are now developing, such as Cevital (which made headline news in France in 2014 with the acquisition of Fagor Brandt) and Soummam in the milk industry.

A certain number of infrastructures have been built, such as the underground in Algiers and the East-West motorway, designed to cross the whole of Algeria alongside the Mediterranean coast. This motorway links the town of Maghnia (on the Moroccan border) with El Tarf (on the Tunisian border), passing through all the main Algerian towns including (from west to east) Tlemcen, Oran, Chlef Alger, Setif, Constantine and Annaba, and covering a distance of almost 1200 km. However, Algeria lacks many crucial skills, with obsolescent infrastructures in all of the country’s key sectors. This led to a mass exodus of academics and top managers and, consequently, a call for foreign skills and competencies for major projects (Schiere and Walkenhorst, 2010; Brahimi et al., 2011). In addition, the number of administrative obstacles and the low level of human capital among the young generations make it very difficult to start a business.

Many issues are a cause for concern:

- the absence of any real tourist industry, due to the dilapidated state of a large number of tourist infrastructures and the decision to close the country to foreign influence following independence;

- the economy has little foreign investment (the 49/51 regulation forbids foreigners from having a majority shareholding in a firm’s capital, which means foreign investors have to find a local partner);

- some years, Algeria imports over 40% of its requirements in cereals, placing the population in a position of food dependency. This catastrophic situation is linked to: 1/ the choices made after independence (Alpha et al., 2012; Bedrani and Cheriet, 2012); 2/ the amount of land lying fallow; 3/ persistently poor harvests (little use of fertilizers and lack of soil preparation); 4/ uncertainty over government policies, and its inability to take a clear position (to maintain the state-owned land and property system or to privatise farms). A genuine food supply chain still needs to be developed,
although vertical integration of activities exists in some sectors such as milk and sugar (Achabou et al., 2014);

- lack of diversification in the country’s exports, with oil and gas tax revenues financing almost 75% of the state budget. The importance of natural resources and the public sector (Chauffour, 2011) appear to be obstacles to regional trade integration in the Arab Maghreb Union (Algeria, Morocco and Tunisia);

- of the 183 countries mentioned in the Doing Business report (World Bank business climate index), Algeria ranks 137th, and it’s position has fallen steadily. It is also 111th out of 180 countries in the Transparency International report that publishes an index on the perception of corruption.

- In the building and civil engineering sector, local companies are unable to take part in major infrastructure construction programmes. As Brahili et al. (2014) explained: “Among the problems in the building and civil engineering sector, we can mention (1) the lack of a real human resource policy, (2) the lack of formalised skills identification, (3) anarchic recruitment, with little or no consideration given to qualifications and even less to personal qualities such as know-how or motivation, and (4) the building and civil engineering sector remains too traditional and consequently lacks any leading edge technologies.”

The more liberal trade policy (initially imposed in 1994 through a structural adjustment programme designed by the IMF), subsequently more or less well assimilated, shows that the governing bodies can change the rules in order to hold onto power. This explains why the more liberal approach to international markets has not changed Algeria’s integration in the global economy, and has not led to greater diversification in production, imports or exports. The unfinished nature of the reforms, the absence of a real group of entrepreneurs investing in industry (Aliouat, 2012; Grim, 2012), and the predominance of consumer goods in the import structure can all be explained primarily by a distribution conflict regarding oil revenues. The protection of property rights remains uncertain, even though there is consensus that the institutions are central to the economic development process (World Bank, 2002).

Algeria remained on the side lines during the political turmoil that broke out in the first half of 2010 and led to a significant shake-up of the North African countries, giving it the appearance of a model of stability. The Algerians did not take part in the Arab Spring. As Martinez (2013) wrote: “In contrast to the security problems in Libya and the Islamist leanings of the Tunisian and Egyptian regimes, Algeria continues to offer the old-world charm of a nationalist and military republic model which delights Western diplomacies, destabilised by the irruption of Islamist parties and civil societies on North Africa’s political stage.” Protests were diffused by wage rises, police presence and the traumatic memories of the civil war (Morin, 2012). Algeria appears as a barrier against the influence of Saudi Arabia and the salafi and Wahhabi movements that have pushed Islam towards greater radicalism. Preoccupied by its own domestic problems and fearing a ripple effect, the Algerian government did not profit from the political shakeup taking place in the Arab world or the redistribution of the regional cards to strengthen its own external influence.

■ Conclusion ■

Many factors have led to the present situation. Politically speaking, the government never managed to free itself from the methods arising from the war of independence, and power has remained in the hands of a military clan which still rules today, and whose legitimacy is linked to the armed struggle. Its leaders are former freedom fighters (Ben Bella, Boumediene, Bendjedid and Bouteflika). The failure of economic development (initiated in 1962) and the democratic transition (which began in 1989) are directly linked to the incompatibility between, on the one hand, a system that clings to power by advocating inaction and, on the other, the legitimate changes expected by civil society. The army remains the real power in the country, but its status poses a problem: is it a force in the service of a legal power or is it the power which defines what is legal?

In geopolitical terms, Algeria resembles a fortress under siege, as its borders with Morocco have been closed since 1994, and those in the south with Mali and in the East with Libya are under high surveillance. While
President Bouteflika has repeatedly urged the Algerians to take their destiny into their own hands, insisting that the new generation must take over and that his generation have had their day, this did not prevent the president from being re-elected in the 2014 elections, paralysing any potential for real change. The country is at a deadlock and condemned to remain immobile for many years to come.

Algeria’s long-term perspectives depend on the government’s ability to introduce real diversification into the economy outside of the gas and oil industry, and to make the private sector the new driver of growth. This involves introducing a series of structural reforms that have been put off for far too long already, such as convertibility of the Algerian dinar, a more streamlined administrative system, more hotels and the development of new tourist sites, the modernisation of logistics platforms (port terminals...), the introduction of incentives in favour of entrepreneurship and the creation of SME (Guechtouli, 2014). In these conditions, the Algerian population could perhaps at last attain greater well-being and more sustainable growth. Algeria is attempting to move from a centralised to a post-socialist economy, but the reforms engaged to date have been too timid. Over and above its economic problems, the country appears to be caught in a political stranglehold, resulting in the paradox of a rich country with a poor population.

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Appendix 1 - Chronology

1830 -- Algeria, Turkish colony for the XVIth century, becomes French.
1947 -- Adoption of a new status for Algeria.
1948 -- Discovery of oil in Sahara.
1962 -- Evian agreements. Political independence and exodus of the “pieds-noirs”.
1965 -- Putsch of Houari Boumediene and reversal of the government of Ahmed Ben Bella.
1969 -- Algeria in the OPEC.
1971 -- Nationalization of the oil sector (economic independence).
1975 -- Occidental Sahara crisis
1988 -- Riots.
1988 -- Agreement for the passage of an Algerian gas main by the Tunisian territory to reach the Italian market.
1989 -- New constitution which authorizes the multiparty system and which deletes any reference to the socialism.
1989 -- Creation of the UMA (“Union du Maghreb arabe”).
1991 -- The FIS wins the first round of the elections.
1992 -- Resignation of president Chadli. Suspension of the process of democratization.
1992/99 -- Civil war.
1994 -- Plan of structural adjustment developed by the IMF. Dinar’s devaluation (40%).
1999 -- Election of Abdelaziz Bouteflika (he is reelected in 2004, in 2009 and in 2014). The civil war is closed.
2002 -- The beginning of the rise of the oil price, pulled by emerging countries.
2013 -- Terrorist attack (Tigantourine)
2013 -- President Bouteflika is a victim of a cerebral vascular accident. The politics’ calendar is dominated by the question of the leadership at the top of the State.